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5 In the Matter of

No. G02-45

6 THE APPLICATION REGARDING
7 THE CONVERSION AND
8 ACQUISITION OF CONTROL OF
9 PREMIERA BLUE CROSS AND ITS
AFFILIATES

FIRST STATUS REPORT OF OIC
STAFF

10 In compliance with the instructions contained in the Order on Status Conference
11 issued by the Commissioner on November 13, 2002, the OIC Staff hereby submits its First
12 Status Report.

13 "1. Whether the OIC Staff has issued data or information requests to PREMIERA and,
14 if so, the nature and number of those requests."

15 On October 7, 2002, the OIC Staff submitted a deficiency letter to PREMIERA
16 identifying materials omitted from the previously filed Form A application.

17 On October 22, 2002, the OIC Staff's consultants ("Consultants") submitted to
18 PREMIERA a consolidated information request listing the documents and information needed
19 and requesting that meetings be scheduled with certain of PREMIERA's employees for review
20 of PREMIERA's application. The information request included 130 document requests
21 regarding the following subject areas: corporate records; financial statements; audit
22 information; regulatory financial/actuarial information; tax, financial and actuarial
23 information related to the subject transaction; other financial/actuarial information; financial
24 projections on stand-alone basis and post-conversion basis; claims/underwriting; reinsurance;
25 investment operations; personnel and management; legal; and policyholder and member
26 communications. In addition, the information request included thirteen questions regarding

1 the proposed structure of the transaction, post-transaction expectations, history and
2 background, and tax matters. The request also listed the members of PREMERA's
3 management with whom the Consultants desired interviews in order to discuss the pending
4 transaction.

5 On November 1, 2002, the Consultants delivered a supplemental information request
6 to PREMERA relating to provider networks, benefit design, and actuarial information.

7 On November 19, 2002, the OIC Staff submitted a second deficiency letter to
8 PREMERA identifying materials missing from the Form A application and that were not
9 included in any supplementation of the filing. The letter also required that the information
10 previously requested by the Consultants be provided.

11 In addition, there have been a number of verbal requests for information made by the
12 Consultants.

13 "2. The status of PREMERA's responses to any requests."

14 On or about September 27, 2002, PREMERA supplemented its original Form A
15 application including certain documents in their entirety that had been redacted in the original
16 filing.

17 On or about October 25, 2002, PREMERA supplemented the application a second
18 time including some materials that had previously been omitted.

19 On November 7, 2002, PREMERA made available a number of its senior management
20 staff for a group interview of about four hours' duration by several of the Consultants.

21 On or about November 11, 2002, PREMERA submitted certain documents in partial
22 response to the information requests made by the Consultants.

23 Beginning in November, PREMERA has made available to the Consultants a data
24 room for on-site review of requested information. Although the data room has been set aside
25 for this purpose, PREMERA has been tardy in marshalling information responsive to the
26 information requests and making it available for review. Initially, only public information

1 was made available for review. On November 14, 2002, PREMERA notified the OIC Staff
2 that non-public records would be made available. On November 18, the Consultants received
3 notification from PREMERA for the first time that the non-public records were available for
4 review in the data room. However, certain requested non-public information deemed
5 confidential by PREMERA was made available to the Consultants only for review in person,
6 in the data room and not for photocopying. This proved to be a significant impediment to the
7 process since the Consultants require photocopies of documents upon which they intend to
8 rely in preparing their opinions and providing expert testimony in this matter. PREMERA
9 gave as its reason for refusing to allow photocopying that such photocopies when made and
10 retained by the Consultants would become subject to the provisions of the Public Disclosure
11 Act (chapter 42.17 RCW). On the afternoon of November 20, PREMERA communicated to
12 the OIC Staff that all Consultants would be permitted access to all information, including that
13 deemed confidential by PREMERA, and would make documents, along with a copy machine,
14 available for the use of the Consultants in the data room. All restrictions on photocopying of
15 documents by the Consultants were removed.

16 Other than the group interview that occurred on November 7, PREMERA has been
17 slow to respond to the requests of the Consultants for one-on-one interviews with members of
18 senior management. The original intention was to schedule the management interviews after
19 the documents in the initial information request were furnished. When it became clear in mid-
20 October that document production by PREMERA was being delayed due to PREMERA's
21 position regarding the applicability of the Public Disclosure Act to confidential information,
22 the Consultants attempted to schedule management meetings. The Consultants were informed
23 by a PREMERA representative on November 15 that PREMERA had not previously
24 attempted to schedule meetings with senior management because the confidentiality issues
25 had not been resolved. However, because of PREMERA's November 14, 2002 decision to
26 make available confidential documents (although only in the data room as previously

1 discussed), the representative indicated that management meetings would be scheduled for the
2 week of November 25. Thereafter, PREMERA notified the OIC Staff that meetings with
3 management would be further delayed, and that the earliest the management meetings would
4 begin would be December 6, 2002. On November 21, 2002, PREMERA notified the OIC
5 Staff that PREMERA's Chief Executive Officer, Chief Financial Officer, Executive Vice
6 President for Strategic Development, Senior Vice President and General Counsel, and
7 Executive Vice President and Chief Legal Officer will be available for Consultant interviews
8 on November 26 from 2:00 pm to 6:00 pm and on November 27 from 8:00 am to noon.

9 The Consultants' ability to interview members of PREMERA management is integral
10 to the proper development of the Consultants' professional findings and opinions. Inability to
11 interview management during the period of discussion concerning availability of documents
12 has further impeded the Consultants' work. Preliminary interviews are now scheduled to
13 begin on November 26. In all probability, those interviews will result in additional interviews
14 and requests for additional documents.

15 Although PREMERA has now committed to full cooperation with the Consultants and
16 OIC Staff in providing the requested information, until the Consultants are able to review the
17 newly available materials, it cannot be determined whether the information identified in the
18 deficiency letters or in the Consultants' information requests has been furnished.

19 "3. Plans of OIC Staff, if known at this time, to issue data and information requests to
20 PREMERA in the future."

21 No specific plans to submit such requests exist at this time. In the ordinary course of
22 reviewing a Form A application, data needs are identified as the review progresses. At such
23 time, requests are prepared and submitted to the applicant or inquiries are directed to other
24 parties or to other sources for additional information. It is expected that the subject review
25 will proceed in conformity with previous practice. Moreover, as information responsive to the
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1 initial requests is provided and reviewed, additional requests are likely to be made for
2 supplementation and clarification.

3 The Consultants have made a number of oral requests to representatives of PREMERA
4 for additional information. If these requests are not honored in a timely manner, they will be
5 reduced to writing and formally submitted to PREMERA.

6 "4. Each party's estimate of the time that each party's experts will require to prepare
7 written reports regarding the proposed transaction."

8 It is too early in the review process to estimate with any confidence the time that the
9 Consultants will require to prepare and submit written reports in this matter. The personal
10 services contracts that each of the Consultants executed with the OIC provide that drafts of
11 written reports, opinions or memoranda are due on December 1, 2002. It is clear that due to
12 the delays encountered in accessing the information required by the Consultants, that deadline
13 cannot be met. The Consultants currently believe that at least sixty days will be required after
14 the receipt of substantially all of the requested documents and information in order to prepare
15 substantially complete draft written reports regarding the proposed transaction.

16 The OIC Staff's representatives may be reached for the conference at 725-7214.

17 DATED this _____ day of November, 2002.

18 Respectfully submitted,

19 OFFICE OF INSURANCE COMMISSIONER
20 STATE OF WASHINGTON

21
22 By: _____
23 John F. Hamje
24 Staff Attorney WSBA #32400
25 Legal Affairs Division
26 Office of Insurance Commissioner
360-725-7046
360-586-3109 (Facsimile)

CERTIFICATE OF SERVICE

Pursuant to WAC 10-08-110(3), I certify under penalty of perjury under the laws of the State of Washington that this instrument was served upon all parties of record in this proceeding by transmitting a copy thereof by FAX, and, on the same day, mailing a copy thereof, properly addressed with postage prepaid, to the attorney for each party to the proceeding.

Dated: _____, 2002
At Tumwater, Washington

John F. Hamje